



MEMORANDUM

To: Nationally Recognized Securities Municipal Information Repositories

From: Nadia Sesay, Acting Director, City and County of San Francisco, Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, City Hall, Room 336, San Francisco, CA 94102, tel. (415) 554-5956, fax (415) 554-4864, email address: Nadia.Sesay@sfgov.org, Website address: www.sfgov.org/mopf

Issuer Name: City and County of San Francisco

Six-digit CUSIP numbers: 797645, 697765D, 797700, 79765X, 79765V

Date: June 4, 2004

Information Provided: Rating Change (See Attachment A)

Attachment A

On May 18, 2004, Fitch Ratings changed the City's Ratings as follows:

City and County of San Francisco General Obligation Bonds

Six-digit CUSIP – 797645

A- from AA

City and County of San Francisco Settlement Obligation Bonds

Six-digit CUSIP – 797645

A+ from AA-

City and County of San Francisco Certificates of Participation

Six-digit CUSIP – 79765D

A from A+

San Francisco Finance Corporation Lease Revenue Bonds

Six-digit CUSIP – 79765X

A from A+

San Francisco Parking Authority Lease Revenue Bonds

Six-digit CUSIP – 797700

A from A+

San Francisco Redevelopment Agency Lease Revenue Bonds

Six-digit CUSIP – 79765V

A from A+

If you have any questions about the information contained in this notice, please contact Nadia Sesay of the Office of Public Finance for the City and County of San Francisco at (415) 554-5956.

CITY AND COUNTY OF SAN FRANCISCO

Fitch
One State Street Plaza
New York, NY 10004
(212) 908-0810
www.fitchratings.com

**Fitch Downgrades \$892MM San Francisco, CA Parity Debt;
Rates \$19.8MM General Obligation Bonds 'AA-'**

Fitch Ratings-San Francisco-May 18, 2004: Fitch Ratings downgrades to 'AA-' from 'AA' the City and County of San Francisco, California's \$891.9 million in outstanding general obligation bonds. Also, Fitch lowers the rating on the city's \$44.3 million in settlement obligation bonds to 'A+' from 'AA-' and lowers the ratings on several certificates of participation and lease revenue bonds secured by city lease rental payments to 'A' from 'A+'. The downgraded lease-secured issues total \$722.8 million. The Rating Outlook for all issues is changed to Stable from Negative.

Fitch also assigns a 'AA-' rating to the City and County of San Francisco, California's \$19.8 million general obligation refunding bonds, series 2004-R1. The Rating Outlook is Stable. The new bonds will be sold competitively on May 26.

The rating downgrades reflect San Francisco's continued weak economic performance, reduced financial reserves, and tax performance well below budgeted amounts. Following two years of operating losses, the controller's nine-month budget status report for fiscal 2004 expects another deficit, reducing the ending unreserved general fund balance to a very small amount. The expectation for fiscal 2005 is strained, with state funding levels reduced and uncertainty regarding strength and pace of the city's economic recovery, which is only beginning to be evident.

Partially offsetting these concerns are the city's strong fiscal policies and practices, as evidenced by revenue monitoring, spending reductions, and other prudent actions taken to minimize the financial decline. The Stable Rating Outlook reflects Fitch's expectation that the city's statutory financial requirements and solid management acumen will restore financial balance.

The revised ratings incorporate San Francisco's diverse economy despite the ongoing weakness. The city's role as the regional economic center and its natural tourism draw provide solid underpinnings. Following severe economic losses with the technology sector's decline and the Sept. 11, 2001 terrorist attacks, the city's tax and employment base is beginning to show signs of recovery.

Jobs in the city rose during the first quarter of 2004, reversing a three-year trend. Other economic indicators, such as hotel occupancy and office vacancy rates, are beginning to show improvement, although remain weaker than in 2000 and earlier. San Francisco's unemployment rate fell to 5.7% in April 2004, down substantially from 7% in April 2003 and 6.8% as the 2003 annual average. Retail trade activity in calendar 2003 was below the 2002 level, although the decline in the final quarter was a low 0.8%.

Financial results for fiscal 2003 were as expected, with the general fund running a sizable operating deficit for the second consecutive year. The city's ending unreserved balance declined to \$44.7 million, a small 2% of expenditures and transfers out. The controller's nine-month budget status report suggests another reduction leaving the city with a \$5.9 million ending unreserved balance, negligible relative to \$2.3 billion in spending and transfers out.

City actions to partially offset the revenue losses included substantial lay-offs and other employment cuts, and were effective in minimizing the reserve reduction. However, achieving even the small balance projected is predicated on stronger economic performance than has been evident in the most recent available data.

This year's expected losses results from a larger than budgeted reduction in state funding and below budget performance by economically sensitive taxes. Fitch expects the city's fiscal discipline to prevent further deterioration in financial position. This financial acumen also could result in rebuilding fiscal balance once economic recovery is evident, which could lead to restoration of a higher rating.

San Francisco's financial status includes certain notable positive developments. First, labor agreements with nearly

all bargaining groups were settled for fiscals 2004 and 2005 with no general salary increases and workers covering part of the pension contribution previously provided by the city. Also, the general fund subsidy to two city hospitals has been reduced, and is projected to be below budget levels for fiscal 2004. Prior to fiscal 2003 the subsidy was rising and generally exceeded budgeted levels. Continuation of this positive trend will be helpful in achieving long-term fiscal balance. Lastly, voters approved the establishment of a rainy day fund in November 2003. The restrictions approved enable the city to build and sustain a good reserve level and prevent sizable revenue increases from building imbalance into the budget.

San Francisco's fiscal management is excellent, marked by statutory requirements for period budget performance reviews and three-year forecasts. The city has acted responsibly in reserving for vulnerabilities in its budget, and reducing spending when revenue weakness is evident.

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Downgraded Issues:

To 'AA-' from 'AA'

General Obligation Bonds, all series

To 'A+' from 'AA-'

Settlement Obligation Bonds series 2001 (Business Tax Judgment)

To 'A' from 'A+'

Certificates of Participation:

--(2789 25th Street Project) series 1997

--(555-7th Street Property) series 1999

--(San Bruno Jail No. 3 Replacement Project) series 2000

--(30 Van Ness Street Property) series 2001A and 2001B

--(San Francisco Courthouse & 25 Van Ness Avenue Project) refunding, series 2001-1

--(Juvenile Hall Replacement Project) series 2003A

San Francisco Finance Corporation lease revenue bonds:

--Series 1997, 1997A, 1998, 1998-1, 1998A, 1999-1, 1999A, 2002A, and 2003A

--(Citywide Emergency Radio System) series 1998 and 1999-1

San Francisco Parking Authority lease revenue bonds:

--(Moscone Center Garage Project) refunding series 1998-1

--(North Beach parking Garage Project) series 2002A

San Francisco Redevelopment Agency:

--(George R. Moscone Convention Center) series 1992, 1994 and 2002
